

Statement of Investment Principles

Avery Dennison Pension Plan

September 2020

1. Introduction

Under Section 35 of the Pensions Act 1995 (the '**1995 Act**'), subsequently amended by the Pensions Act 2004, the Occupational Pension Schemes (Investment) Regulations 2005 (the "**Investment Regulations**") and the Occupational Pension Schemes (Charges and Governance) Regulations 2015, trustees are required to prepare a statement of principles governing decisions about investments for their pension funds. This Statement of Investment Principles (the '**SIP**') describes the investment policy, guidelines and procedures being pursued by the trustee (the '**Trustee**') of the Avery Dennison Pension Plan (the '**Plan**'). The Trustee believes this is in compliance with the Government's voluntary code of conduct for Institutional Investment in the UK (the 'Myners Principles'). This SIP has also been drafted in a manner to reflect the requirements of the Investment Regulations.

In accordance with the Pensions Act 1995, the Trustee confirms that, before preparing the SIP, they have obtained and considered written advice from SEI Investments (Europe) Limited in their role as fiduciary manager of the Plan (the '**Fiduciary Manager**'). The Trustee believes the Fiduciary Manager is qualified by its ability and practical experience of financial matters and has appropriate knowledge and experience of the investment arrangements that the Plan requires.

The Trustee has also consulted with Avery Dennison UK Limited, the Principal Employer of the Plan, (the '**employer**'), in preparing the SIP, and the Trustee will consult the employer before revising this document further.

The Trustee will review the SIP, in consultation with the Fiduciary Manager, at least every three years; and without delay after any significant change in investment policy or the circumstances of the Plan.

The Trustee is responsible for the investment of the Plan's assets and arrange the administration of the Plan. Where they are required to make an investment decision, the Trustee first receive and consider advice from the Fiduciary Manager. The Trustee believes that this ensures that they are appropriately familiar with the issues concerned.

In accordance with the Financial Services and Markets Act 2000 (FSMA), the Trustee is responsible for setting a general investment policy, but have delegated the day-to-day investment of the Plan's assets to the Fiduciary Manager. In turn, the Fiduciary Manager has delegated certain investment roles to companies within the wider SEI group ("**SEI**"). SEI and other third party asset managers are, where appropriate, used within the Plan's portfolio either as investment managers of pooled funds or as asset managers within multi-manager pooled funds.

The Fiduciary Management Agreement sets out the scope of the Fiduciary Manager's duties together with fees, investment restrictions and any other relevant matters in relation to the Plan. The Fiduciary Manager is authorised and regulated by the Financial Conduct Authority (FCA) and provides the skill and expertise necessary to manage the investments of the Plan competently and in accordance with the terms of the Fiduciary Management Agreement and the principles of this SIP.

The Trustee will monitor the performance of the Fiduciary Manager against the agreed performance objectives. The Trustee will regularly review the activities of the Fiduciary

Manager to ensure they continue to perform in a competent manner and have the appropriate knowledge and experience to manage the assets of the Plan.

The Fiduciary Manager has been provided with a copy of this SIP and is aware that it is required to exercise its powers with a view to giving effect to the principles contained herein and in accordance with subsection (2) of Section 36 of the Pensions Act 1995.

2. Investment Objective

The Trustee's primary objectives in respect of the defined benefit ("DB") assets are:

- To make sure that, together with contributions from the employer the assets can meet the Plan's obligations to the beneficiaries of the Plan;
- To strike an acceptable balance between the stability of funding and the long-term cost of benefit provision; and
- To achieve, over the long term, a rate of investment return sufficient to outperform the growth of the Plan's liabilities and reach full funding on an appropriate basis while only taking the level of risk required to achieve this objective with a reasonable degree of certainty.

3. Choosing investments

The Trustee has delegated the management of the investment portfolio to the Fiduciary Manager. When choosing investments, the Fiduciary Manager is required to have regard to the criteria for investment set out in the Investment Regulations, the Occupational Pension Scheme (Charges and Governance) Regulations 2015 and the principles contained in this statement. Consideration will be given to the Trustee's policy to ensure there is an appropriate balance between the different kinds of investments. The assets chosen will be invested in a diverse portfolio of investments in order to reduce investment risk.

The allocation of investments is likely to change as a result of a range of factors, such as changes in market conditions and the expected returns and risks. In recognition of the risks that asset allocation can imply, there are asset allocation controls in place. These are detailed in the Fiduciary Management Agreement.

4. Kinds of investments

The Fiduciary Manager may invest in a wide range of investment instruments including equities, bonds and alternative investments using pooled funds. The investments in each fund will depend on the nature of the fund, its objective and benchmark and the risk controls which operate. If the Trustee was to impose any restrictions on types of investments, this would be reflected within the Fiduciary Management Agreement.

The Trustee has determined that derivatives or other financial instruments may be used to hedge the Plan's liability risks (principally interest rate, inflation and longevity risks) or other risks (e.g. equity or currency risks). In addition derivatives may be used within pooled funds for the purpose of efficient portfolio management. At any given time a minimum level of assets of sufficient liquidity and quality will be held to ensure the Plan is

able to satisfy collateral or margin calls which may arise as a result of the derivatives positions it holds.

5. Balance between different kinds of investments

The Trustee understands the importance of diversification and, as such, the Fiduciary Manager is required by the Trustee to ensure the assets are properly diversified. The Fiduciary Manager will keep this consideration in mind when choosing investments.

The range of, and any limitation to the proportion of, the Plan's assets held in any asset class will be agreed between the Fiduciary Manager and the Trustee. These ranges and sets of limitations are specified in the Fiduciary Management Agreement and may be revised from time to time where considered appropriate.

6. Risks, including the ways in which risks are to be measured and managed

The Trustee recognises a number of risks involved in the investment of the assets of the Plan, and monitor these risks on a regular basis. The key identified risks are as follows:

Cashflow risk - The risk of a shortfall of liquid assets relative to the immediate liabilities. The Trustee and their advisers will manage the Plan's cash flows taking into account the timing of future payments, and may borrow over the short-term in order to minimise the probability that this occurs.

Demographic risk - Demographic factors include the uncertainty surrounding mortality projections such as future improvements in mortality experience. The Trustee will measure liabilities using mortality assumptions recommended by the Scheme actuary.

Manager risk - The failure by the Fiduciary Manager to achieve the rate of investment return assumed by the Trustee. This issue has been considered by the Trustee on the initial appointment of the Fiduciary Manager and thereafter will be considered as part of the investment review procedures the Trustee has put in place.

Concentration risk - The risk that the performance of any single asset class or single investment that constituted a significant proportion of the assets would disproportionately influence the Trustee's ability to meet the objectives. The Trustee has delegated diversification to the Fiduciary Manager and will monitor it on a regular basis.

Credit Risk - The risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Trustee limits the risk by restricting the Plan's exposure to investments with a high credit risk and by ensuring that credit risk is well diversified across a number of counterparties.

Market risk - The risk that the fair value or the future cash flows of a financial instrument will fluctuate because of changes in market prices. This includes the risk of changes in interest rates, inflation and currency rates, The Trustee will monitor the performance and ratio of assets in relation to these risks.

The Trustee will keep these risks under regular review. The management of investment risk is a function of the asset allocation and diversification strategies and implementation of that strategy is delegated to the Fiduciary Manager.

7. Expected return on investments

A return on investments is required which, over the long term, is expected to be consistent with the Trustee's goal of meeting the Statutory Funding Objective. The Trustee will monitor the performance of the Plan's assets against liabilities and the performance of the Fiduciary Manager against the agreed objectives.

8. Additional Voluntary Contributions (AVCs)

Some members obtain further benefits by paying AVC's into the Plan. The liabilities in respect of these AVC's are equal to the value of the investments bought by the contributions. The Trustee's objective is to provide a range of funds, which will provide a suitable long term return for members, consistent with members' reasonable expectations. The Trustee has appointed the following Investment Manager as providers of AVC.

- a) Investment in the Deposit Fund managed by Prudential
- b) Investment in three funds managed by Legal & General Assurance Society Ltd
 - the With-Profit Fund
 - the Managed Fund
 - the UK Equity Index Fund

9. Realisation of investments

The Trustee is aware of the importance of fund liquidity and the risk that core financial transactions are not processed promptly due to lack of liquidity in the investments. The Trustee's preference is for investments that are readily realisable but recognises that achieving a well-diversified portfolio may mean holding some investments that are less liquid.

The Trustee will ensure that the Fiduciary Manager is made aware of the cashflow requirements of the Plan. The Fiduciary Manager will be responsible for ensuring that, in normal market conditions, sufficient assets are readily realisable to meet any disinvestments required by the Trustee to meet these cashflows.

10. Financially material considerations

The Trustee has considered how financially material considerations (including environmental, social and governance ('ESG') factors such as climate change) should be taken into account in the selection, retention and realisation of investments, given the time horizon of the Plan and its members. The Trustee considers that the appropriate time horizon to be more than 15 years.

The Trustee has delegated asset manager selection to the Fiduciary Manager. The Fiduciary Manager will seek to appoint asset managers that have appropriate skills and

processes to take account of financially material considerations in the selection, retention and realisation of investments, and regularly reviews how its asset managers are doing so in practice. The Trustee expects the Fiduciary Manager to provide updates on the latest position on ESG factors and any material decisions that have been taken by SEI or third party asset managers as a result of considering such issues.

11. Non-financially material considerations

The Trustee has decided not to take non-financial considerations into account in the selection, retention and realisation of investments. For this purpose, non-financial matters means the views of the members and beneficiaries including (but not limited to) their ethical views and their views in relation to social and environmental impact and present and future quality of life of the members and beneficiaries of the Plan. In reaching this decision, the Trustee has considered both the challenges of engaging a properly representative sample of members and the strong likelihood of a lack of consensus among those most likely to respond to such a consultation.

12. Stewardship & Voting rights

The Plan's investments are achieved via pooled investment funds, in which the Plan's investments are pooled with those of other investors. The direct control of the process of engaging with the companies that issue these securities, whether for corporate governance purposes, social, ethical or environmental factors, is delegated to SEI, or in the case of a third party pooled fund, its investment manager.

The management of the Trustee's policy in relation to the exercise of rights (including voting rights) and other engagement activities in respect of an investment is as follows:

- Voting decisions on stocks are delegated to the investment manager of the pooled fund. Where this is SEI, SEI has pooled the holdings in their funds with other investors and employed a specialist ESG provider for voting and engagement services. The Fiduciary Manager is also a signatory to the UK Stewardship Code issued by the Financial Reporting Council. The Fiduciary Manager will report on voting and engagement activity to the Trustee on a periodic basis together with its adherence to the UK Stewardship Code.
- SEI, or the investment manager of a third party pooled fund, has full discretion for undertaking engagement activities in respect of the investments:
 - (a) with relevant persons (which term includes (but is not limited to) an issuer of debt or equity, an investment manager, another stakeholder or another holder of debt or equity);
 - (b) about relevant matters including (but not limited to) matters concerning an issuer of debt or equity, including their performance, strategy, capital structure, management of actual or potential conflicts of interest, risks, social and environmental impact and corporate governance. Under the Investment Regulations the Trustee must document the methods by which and the circumstances under which the Trustee monitors and engage with the relevant persons about relevant matters.

Responsibility for monitoring the above is delegated to the Fiduciary Manager who will report on such activity on a periodic basis and raise concerns with the Trustee on an ongoing basis.

13. Asset manager arrangements

Incentivising and monitoring managers to align with Trustee's' investment strategy

The Fiduciary Manager is incentivised to align its investment strategies with the Trustee's policies mentioned in this SIP through the terms set out in the Fiduciary Management Agreement and through the Trustee setting investment objectives which are reviewed annually. The Trustee will monitor performance quarterly and assess performance against these investment objectives annually and have also appointed an independent adviser to assist in assessing the Fiduciary Manager's performance. Such review will also include how well the Fiduciary Manager is aligned with the SIP, including in terms of ESG factors and the quality of service provided.

If the Fiduciary Manager does not meet its objectives it may ultimately result in the termination of its mandate. The agreement with SEI allows the Trustee to terminate with one month's notice.

SEI engages third party asset managers either through the use of third party pooled funds or through the appointment of asset managers within multi-manager pooled funds.

SEI will monitor the asset managers' performance on an ongoing basis against the particular investment strategy and objectives agreed with that manager. Where an asset manager is not performing or acting in a manner SEI feels is appropriate it may ultimately result in the termination of their mandate.

The fees paid to the Fiduciary Manager, and the possibility of their mandate being terminated, ensure they are incentivised to provide a high quality service that meets the stated objectives, guidelines and restrictions of the Plan. The Fiduciary Manager is responsible for fee arrangements with asset managers, the costs of which are borne directly by the Plan.

Medium to long term and non-financial performance

Performance in the medium to long term can be improved where asset managers (i) make decisions based on assessments about medium to long-term financial and non-financial performance of an issuer of debt or equity; and (ii) engage with issuers of debt or equity. The Trustee has delegated this to SEI and will monitor performance against this.

Monitoring portfolio turnover and costs

The Trustee has delegated the monitoring of the costs incurred by asset managers in the buying, selling, lending or borrowing of investments to the Fiduciary Manager.

The Trustee recognises that portfolio turnover (being the frequency with which the assets are expected to be bought/sold) and associated transaction costs are a necessary part of investment management and that the impact of portfolio turnover costs is reflected in performance figures provided by the Fiduciary Manager. However, the Fiduciary Manager will incorporate portfolio turnover and resulting transaction costs in its advice on the Plan's investment mandates. When the Trustee agrees a particular strategy and investment

mandate, this will then set an expected level of turnover and transaction costs. The Trustee reviews and monitors the actual level of the costs and turnover against this expected level.

Duration of asset manager agreements

The agreement with the Fiduciary Manager has an indefinite term but can be terminated by the Trustee giving one month's notice. The Plan does not have any direct agreements with third party managers used by the Plan.

14. Declaration

The Trustee confirms that this SIP reflects the investment strategy it has implemented for the Plan. The Trustee acknowledges that it is their responsibility, with guidance from SEI, the Fiduciary Manager, to ensure the assets of the Plan are invested in accordance with these principles.

Signed R Gilmore Date 14 September 2020

For and on behalf of Avery Dennison Pension Trustee Limited as Trustee of the Avery Dennison Pension Plan